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SUBJECT: The Japan Economic Scope--July 19, 2007 Part 2

Sensitive but unclassified. Please protect accordingly.

¶1. (U) This cable contains the part two of the Japan Economic Scope from July 19, 2007.

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¶3. (SBU) Mississippi Governor Seeks Nagoya FDI

Governor Haley Barbour led a delegation of two dozen Mississippi government and business leaders to Nagoya for three days to encourage follow-on investments in the wake of Toyota's start of construction on its new \$1.3 billion Blue Springs plant, scheduled to open in 2010.

More than a victory lap, Mississippi economic development officials planned Barbour's trip as a chance to take advantage of a unique window of opportunity to draw further investment. Ultimately, though, Toyota's needs and instructions to suppliers are likely to be far more important to those suppliers' investment decisions than Mississippi's outreach and inducements. While in Nagoya, Gov. Barbour met with Toyota executives including President Katsuaki Watanabe and Honorary Chairman Shoichiro Toyoda, as well as top executives from Toyota Group companies including Aisin, Denso, and Toyota Tsusho.

The delegation also hosted an investment seminar attended by about 50 area companies and a reception at which Amb. Schieffer made remarks. (Nagoya: Dan Rochman)

¶4. (SBU) Sumitomo Chemical President Describes Japan-Saudi Rabigh Joint Project

On July 12 Sumitomo Chemical President Hiromasa Yonekura

described the Japan-Saudi Arabian Rabigh joint project to an audience of diplomats, GOJ officials and journalists attending a "brown bag" organized by METI. The project involves building the world's largest integrated petrochemical and refining facility and is projected to open in 2008.

Yonekura speculated that the reasons Sumitomo Chemical was chosen to partner with Saudi Aramco in a competition among such world class companies as Dow Chemical were because of its high level of technical capability, its business experience in Singapore, and its access to the East Asian market.

"Personally," Yonekura said, "the most important determinant was the personal relationship between individual Arabs and Japanese." For more on this project, see the attached memo. (ECON: Eriko Marks)

15. (U) Sharp, Kyocera, and Sanyo to Accelerate Manufacturing of Solar Batteries

The world's largest producers of solar batteries -- Sharp, Kyocera, and Sanyo -- are ramping up their production after signing new contracts with silicon manufacturers.

According to the Sankei Newspaper in Osaka, these companies invested 30 -- 40 billion yen into the construction of solar battery plants with the intention of tripling their production in the next three years.

Troubled electronics maker Sanyo, in particular, is resting its hopes on the future profits from solar battery fabrication by making it a core part of its company's reform policy.

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A manager of the Business Promotion section of METI Kansai Bureau mentioned that these three Kansai-based manufacturers are striving to expand their market, especially in the U.S., Germany, and other EU countries. (Osaka-Kobe: Phil Cummings/ Scott Ravenhill/ Naomi Shibui)

16. (SBU) Construction and Crime

According to Japanese press reports, a survey of construction companies released this week in the National Police Authority (NPA) White Paper for 2007 showed that 33.8 percent of the respondents are affiliated with underworld crime syndicates. Crime syndicates placed former members at the helm of construction and real estate businesses during the bubble economy period, and some contractors have willing relationships with the mob, according to the White Paper.

The White Paper also claims the 1992 Anti-Organized Crime Law has weakened the crime syndicates' overall economic power, leading to extreme behavior by gangsters who are being pressed to pay money to affiliated groups.

The White Paper estimates the entire yakuza world earned at least 1.3 trillion yen, approximately the same as in 1989. (ECON: Josh Handler)

17. (U) Court Sentenced Murakami to two years

On July 19 the Tokyo District Court convicted former investment fund president Yoshiaki Murakami and sentenced him to a two-year prison term and a 1.15 billion yen additional fine on violation of the Securities and Exchange Law.

Murakami was arrested on suspicion of insider trading and charges that he purchased 1.9 million shares of Nippon Broadcasting System after he was provided information about Livedoor's decision to accumulate Nippon Broadcast shares in November 2004, sold them at a profit, and consequently obtained an unfair 3 billion yen gain.

Murakami will appeal to the High Court. Recent convictions of two controversial new business executives, Murakami and former Livedoor CEO Takafumi Horie, are praised especially by old Japan Inc. for enhancing the health and transparency of Japan's stock market.

On another front the case triggered some disappointment among some of the younger generation who see the laws applied in an arbitrary fashion against individuals seeking to shake up old ways of doing business. Murakami is a former METI official, and was known as Japan's first shareholder activist. (ECON: Satoshi Hattori)

18. (SBU) Pakistan May Launch Osaka Trade Office

According to a contact in the Osaka Business Matching Center on July 11, the Pakistani Embassy will decide soon whether or not it will open a trade office in Osaka.

The contact cited the large and growing population of Pakistanis involved in the used car business in places such as Kobe and south Osaka (as well as Toyama and Fukui on the Japan Sea coast) as a reason that the Government of Pakistan (GOP) might want to start diplomatic representation here, and in the future perhaps even provide consular services.

In the meantime, the Pakistanis told him they are interested in promoting economic and commercial ties, especially in textiles; the emphasis on textile trade is underscored by the GOP's focus on sites in the heart of Osaka's textile district downtown. Although the GOP actively sought rental assistance from the prefectural government, the Business Matching Center told them that Osaka did not have the budget to subsidize diplomatic missions. (Osaka-Kobe: Phil Cummings)

19. (SBU) Miyagi Coastal Community Hosts Japan's Inaugural Whaling Forum

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On July 7 and 8, approximately 13,000 people attended Japan's first nationwide forum to promote whaling culture. Held in Ishinomaki, Miyagi Prefecture, the event was hosted by the National Municipal Council for the Protection of Commercial Whaling, an organization representing 26 Japanese municipalities with historic ties to commercial whaling.

Mayors from four traditional whaling towns -- Ishinomaki in Miyagi, Abashiri in Hokkaido, Minami Boso in Chiba, and Taichi village in Wakayama -- spoke on the economic downturns experienced in their communities since commercial whaling was banned in 1988. Afterward, representatives from whaling communities adopted the "Ishinomaki Declaration," which calls on the Japanese government to permit the resumption of small-type coastal whaling to help preserve traditional maritime culture and whaling techniques. The declaration comes after the Japanese government failed to gain support for the resumption of commercial whaling at meetings of both the International Whaling Commission (IWC) and the Convention on International Trade in Endangered Species earlier this year.

The forum also featured several panel discussions on whaling issues. According to a ConGen Sapporo contact familiar with the forum proceedings, one of the panels debated whether Japan should continue membership in the IWC.

An official from Japan's Fisheries Agency argued that Japan does not need to withdraw from the IWC because it has not done anything wrong. Other panelists, however, expressed doubts that the IWC will continue to serve Japanese interests. In addition to the debate and discussion, the whaling forum also included a photo exhibition on whaling, whale meat culinary

samples, and a special whale meat sale. (Sapporo: Ian Hillman/Yumi Baba)

110. (SBU) Rural Areas May Tip Election Scales

The upcoming Upper House elections will likely determine whether the current administration will stay or go, and rural areas seem to have a major voice in this decision. As the LDP campaigns for economic growth through structural reforms, rural areas feel that this will only benefit the big cities and does not apply to their struggling economies.

As public works budgets are slashed and job opportunities shrink, rural areas are beginning to feel ignored by the government as less pork barrel money comes their way. More importantly, the LDP's traditional stronghold in rural areas could be jeopardized. The secret weapon that rural areas possess is the fact that 29 out of 47 single seats are located in these areas. Unlike multi-seat districts where the parties will likely share seats, in single seat districts, the winner takes it all.

To further complicate things, the opposition Democratic Party of Japan (DPJ) pledged in its economic manifesto to support "every farmer" and is already wooing farmers by promising them subsidies.

For more on regional income gaps and its impact on the elections, see Tokyo 3187. (ECON: Virsa Hurt)

111. (SBU) Toyota Continues Open Support for LDP

Reflecting Toyota's changing stance regarding political activities, company President Katsuaki Watanabe made a publicly reported visit to LDP Upper House Member and Deputy Chief Cabinet Secretary Seiji Suzuki's campaign headquarters to meet with Prime

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Minister (PM) Abe during Abe's July 14 pre-election swing through Nagoya.

Historically, Toyota has been rather reserved about public shows of support for the LDP. This changed notably in the run-up to the September 2006 Lower House election when Toyota Vice Chairman Fujio Cho and other executives appeared on stage with then PM Koizumi at a campaign event in Toyota City.

In some ways this is symptomatic of a change in Toyota's corporate culture as the company becomes more assertive and less "humble." Other examples include Toyota's dominant role in the 2005 Aichi World Expo and the opening of Toyota's new Nagoya

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office building, the most prominent and luxurious piece of real estate in the city.

Meanwhile, Toyota union members remain a key source of support for the DPJ in Aichi prefecture. (Nagoya: Dan Rochman)

SCHIEFFER